

The Top 10 Lenders to Cable TV

Outstanding loans, dollars in millions

Lender	December 1988	December 1989
1. Toronto Dominion	\$1,800*	\$2,000*
2. NCNB**	281	1,300
3. GECC Communications	1,216	1,279
4. Mellon Bank	925*	1,250*
5. Bank of New York	1,028	1,124
6. Prudential Insurance	354	1,076
7. First Chicago	877	981
8. Chase Manhattan	800*	950*
9. Bank of Boston	690	870
10. National Westminster	534	828

*Estimates

**Includes NCNB Texas (formerly First Republic BankCorp)

Source: Paul Kagan Associates

Cable Firms Losing Access to Bank Credit

Continued from page 1

Stephen McDonald, managing director of cable lending at Toronto Dominion Bank. The Canadian bank is the industry's leading lender, by a wide margin.

The numbers tell the story. Through the first quarter of 1990, just three loans to cable TV companies for \$345 million were publicly reported, according to Loan Pricing Corp., which tracks the market. On an annualized basis that's 12 loans totaling about \$1.4 billion.

In 1989, by contrast, 34 loans for a total of about \$8.8 billion were disclosed, up from 23 loans for \$5.6 billion in 1988.

And the pricing on the loans has jumped, too. From an average spread of 171 basis points

over the London interbank offered rate in 1989, the handful of cable loans disclosed this year carried spreads of 246 basis points above Libor.

Quantifying Risk

The new HLT guidelines were mainly an attempt by regulators to set up uniform standards to give bankers and their examiners a handle on risk. They don't mandate any changes in lending policies. They do not require banks, for example, to restrict their lending to HLTs or reserve more heavily against the possibility of problems with them.

But because leveraged loans are considered riskier, investors and Wall Street analysts view high HLT exposure with a jaundiced eye, creating indirect pres-

sure on management to reduce or minimize exposure.

That's bad news for many cable TV industry lenders. Under the February guidelines, American banks have to classify many of their cable TV loans as highly leveraged transactions.

No one is arguing that cable loans are not leveraged. Before February, though, some banks did not classify their cable and media loans as HLTs. Their reasoning was that the cable companies, unlike some leveraged buyouts that depend on asset sales for success, tend to throw off enormous amounts of cash—more than enough to cover interest costs.

Leveraged Loans Up Sharply

Some banks made the assumption that their cable loans would be included as HLTs, but adhering to the new guidelines has forced many banks to report substantial increases in HLT exposure. Many leading cable TV lenders reported sharp increases in their HLT loans, including Bank of Boston, Mellon Bank, Continental Bank, and NCNB.

Under the new guidelines, a loan is considered highly leveraged if the company's liabilities exceed 75% of its assets. A loan is also an HLT if a buyout, acquisition, or recapitalization causes the company's debt to double and results in liabilities exceeding 50% of assets.

The guidelines, unlike those used by some banks, do not address the borrowing company's ability to generate cash. Bank of Boston, for example, used criteria in which a loan was considered an HLT if the borrower's senior debt plus 25% of its subordinated debt exceeded its cash flow by a ratio of 7-to-1.

Some banks evidently took the changing environment to heart. Citibank reduced its exposure to cable lending to \$710 million at yearend from \$1.1 billion in June 1989, according to data compiled by Paul Kagan Associates. Citicorp officials were not available for comment.

Foreign Lenders Benefit

Bankers said that the new rules give an advantage to foreign banks and nonbank lenders, which are unaffected by the regulations.

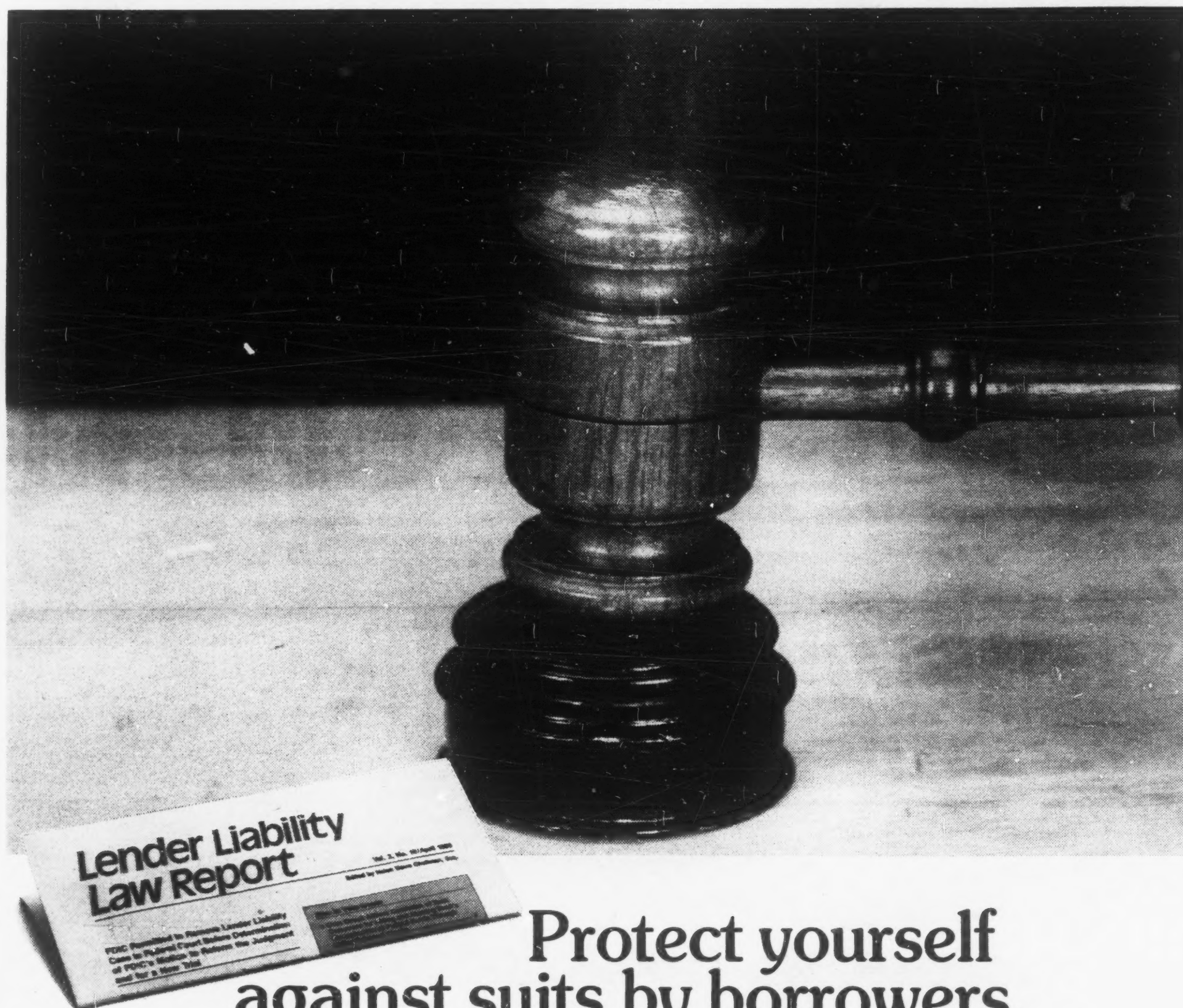
Such competitors already have a strong grip on the market: 10 of the top 20 lenders to the cable TV industry at yearend 1989 were either foreign banks or nonbank lenders, according to data compiled by Paul Kagan Associates.

"I think we are seeing deals more quickly, and are seeing more attractive deals," said Mr. Shink of General Electric Capital. "Since GE is a nonbank, we can be more creative."

Foreign banks have taken advantage of the situation, too. Canadian Imperial Bank of Commerce recently purchased \$1 billion in cable TV loans from the Bank of New England in February.

Telecommunications Inc., the largest U.S. cable TV company, turned late last year to a syndicate of European banks late last year for a \$500 million credit.

"We aren't unhappy with our domestic banks, said Gerald S.



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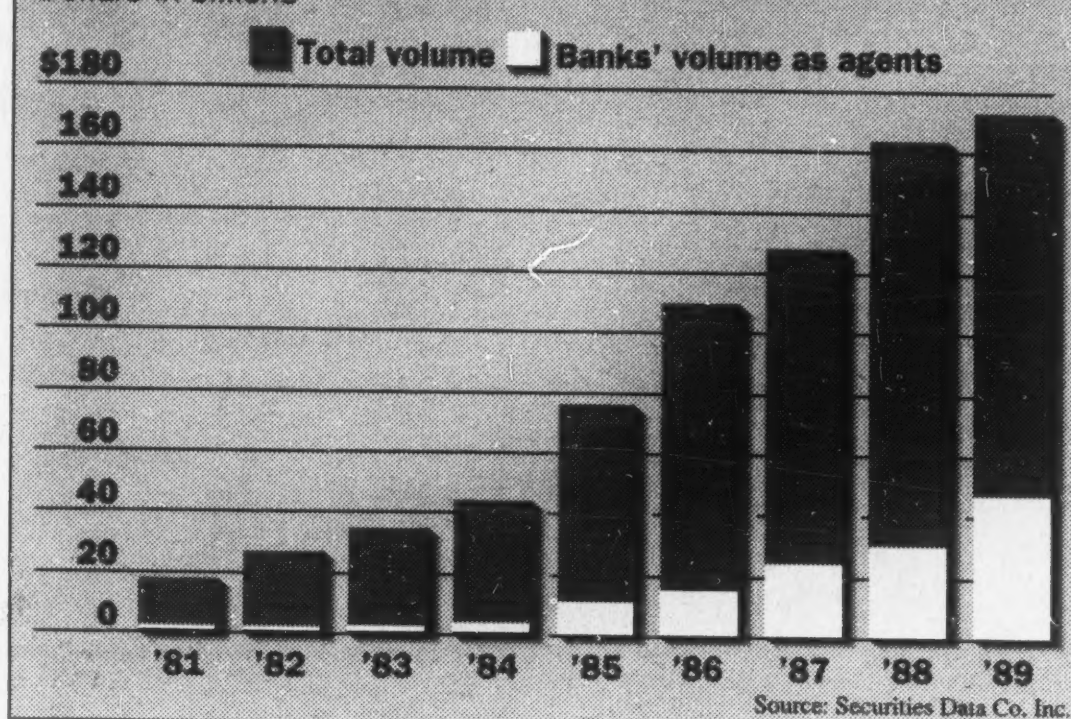
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FINANCE

DEALS

SEC Rule on Debt Trading Hailed by Banks

Banks' Growing Share of Private Placement Market
Dollars in billions

Continued from page 1

than \$172 billion in private placements, exclusive of private certificates of deposit and deposit notes.

Even in its initial stages, "I think we're talking easily billions of dollars," said Maleyne Syracuse, vice president in charge of private placements at Bankers Trust Co., one of the most active commercial banks in the private-placement market.

"We're geared up to deal with the issues," she said.

Most 144A issues will be in the \$100 million range, Ms. Syr-

acuse predicted, adding that she expects more than 10 issues by the end of this year alone.

Foreign Issuers to Be Active

At least initially, the most active issuers in the new market spawned by the SEC rule are expected to be foreign companies and their U.S. subsidiaries.

Foreign issuers are discouraged from participating in the U.S. public debt markets because of the time and costs associated with registering their securities.

At the same time, foreign firms have not wanted to pay the premium necessary to attract in-

vestors in the private-placement market.

Investors demand the premium because of the illiquidity in the private-placement market.

With the advent of rule 144A, the premium issuers pay on their cost of funds in the new market could disappear by year-end, Ms. Syracuse said.

Optimism at Citibank

While some banks and brokerages may lose some existing business, the business generated at Citibank by the new 144A market will be all gravy, an official there said.

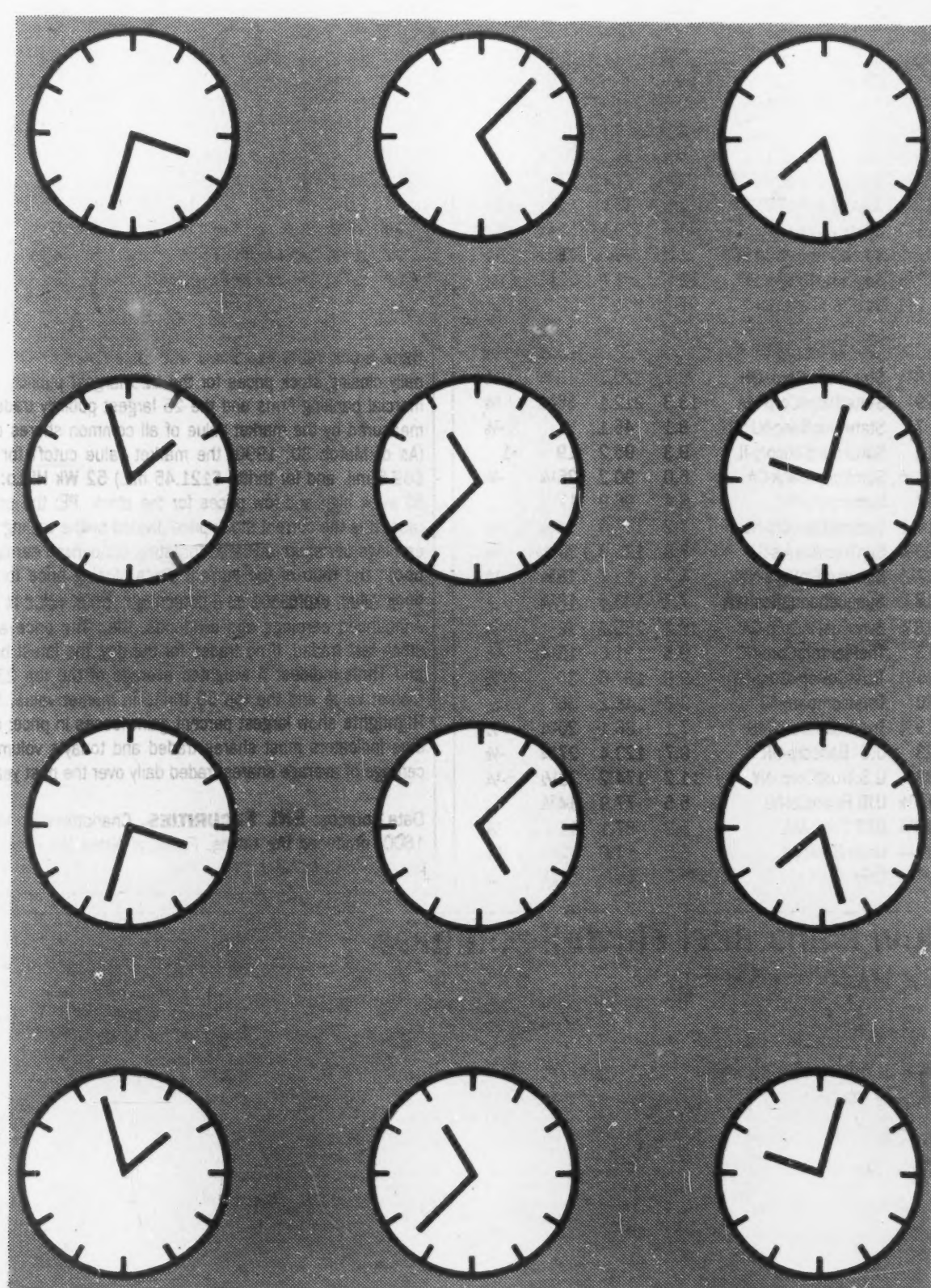
With much of the initial activity expected to come from the Eurobond market, there is no downside to the new 144A market for Citibank, since the bank is not active in that market, said Timothy Conway, vice president in charge of private placements at Citibank.

Issuers in the new 144A market will be looking for seven- to 10-year term financing, Ms. Syracuse predicted, and "banks are not competitive for that kind of money."

Many observers said they think commercial banks will be on an equal footing with investment banks in the 144A market.

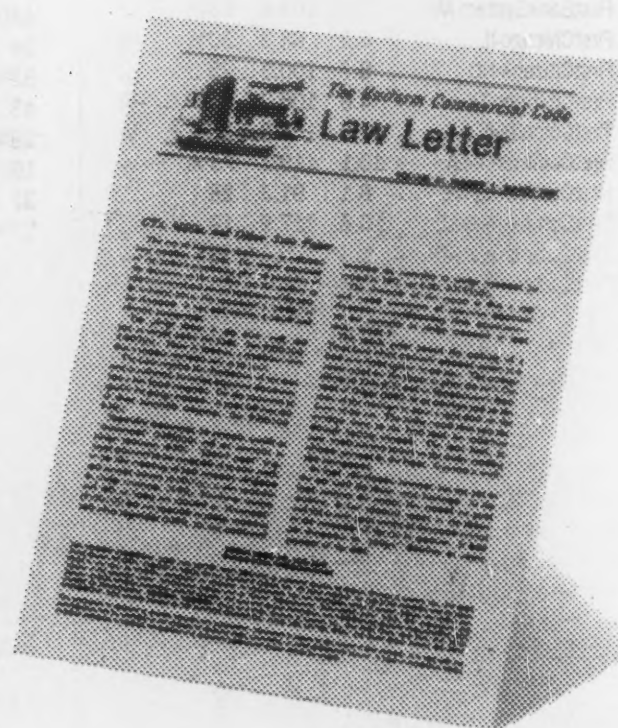
"I think it's a level playing field," said Sara Hanks, a former SEC staffer who drafted much of the rule. She is now a lawyer in New York with Rogers & Wells.

However, the head of private placements at one bank said he thinks most commercial banks will be at a competitive disadvantage. He contended that the new 144A market will really be a "quasi-public market." □



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Cable Industry Losing Access To Bank Credit

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kol, a finance associate at Telecommunications, "but we are getting a better rate in Europe."

Junk Bond Fallout

The collapse of the junk bond market has thrown cold water on cable lending too. Fueled by a wave of acquisitions, cable industry lending grew rapidly through the 1980s with outstanding loans more than tripling to \$22.7 billion at yearend 1989 from \$6.2 billion in 1983, according to Paul Kagan Associates.

"Until the uncertainty ends and alternative sources to mezzanine financing develop, I don't think there is going to be much activity," said Elizabeth Hope, senior vice president for communications lending as National Westminster Bank USA.

"Systems aren't moving as fast as they once were," said Juliette Turner, the cable industry analyst at Moody's Investor Service. "This is partly the result of the lack of financial players in the market." □

Bank Earnings Still Vulnerable, Analysts Believe

By JED HOROWITZ

The first-quarter earnings reported by most of the money-center banks were in line with most analysts' expectations. And that was not good news, considering that the forecasts had been on the glum side.

Worse, the reasons for the declines in earnings are, for the most part, still present. They include:

- Deteriorating credit quality in real estate and highly leveraged transactions are the big topics of the day, and they are not fading. Many banks hinted in reporting their earnings that reserves and chargeoffs would get worse before they get better.
- Pressures on net interest margin continue unabated at most money-center and regional holding companies, while demand for new loans remains anemic.

• Banks hoping to balance the loss of their traditional loan income with fee-based advisory and syndication activities offer little encouragement. Near-term relief in these areas is almost nonexistent because of the lull in the leveraged-buyout and real-estate construction markets.

• Income from trading — up at some banks and down at others in the quarter — remains an unpredictable factor on a quarter-by-quarter basis.

The big disappointments of the first quarter among money centers were Chase Manhattan Corp. and Citicorp, which declined 67% and 56% respectively from their 1989 first-quarter levels.

Better Results Expected

Both banks said large provisions for possible credit losses were a prime reason for the decline, and said certain provisions and expenses were shaping them for better results.

The banks offered little hope for a quick rebound, noting especially that real-estate values may continue to decline.

More than one analyst is worrying that Chase's dividend, in particular, could be in danger. Chase earned 20 cents a share, but needs the equivalent of 78 cents per quarter to cover its dividend, says Richard Fredericks, a securities analyst with Montgomery Securities, San Francisco.

"Chase, as well as other banks, will have to cover its dividends by earnings, not promises, going forward," he wrote in a recent report

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INSIDE NEWS

INTERNATIONAL

THE LOW CREDIT RATINGS of U.S. banks could destabilize the international financial system and cost the banks market share, warned Robin Monro-Davies, managing director of IBCA Ltd. *Page 12*

FINANCE

CHEMICAL BANK agreed to provide the reorganizing Ames Department Stores with \$250 million of debtor-in-possession financing. *Page 18*

CONSUMER

BANK MARKETERS tout quality, but experts accuse them of not defining it and not creating performance standards. *Page 6*

MORTGAGES

AN INTEREST RATE RISE is causing some disruption in the fixed-rate mortgage market. Adjustable-rate mortgages, out of favor for a year, are slowly becoming more popular. *Page 9*

TECHNOLOGY

THE RESIGNATION of a key marketing executive in Wang Laboratories' image processing business has heightened concerns among potential bank customers. *Page 3*

COMMENT

COMPETITION for high-quality managers will continue to increase, write Stanley M. Huggins and Mark D. Guthrie. *Page 4*

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LATE NEWS

Citicorp Rating Cut

Standard & Poor's Corp. late Thursday afternoon downgraded the debt of Citicorp and several of its units, citing relatively low capital levels. The rating on Citicorp's senior debt was lowered to AA-minus from AA. Citicorp's subordinated debt was lowered to A-plus from AA-minus.

The downgradings affect about \$30 billion in debt, the agency said. Commercial paper ratings were reaffirmed at A1-plus.

Electronic Tax Filing Soars As Banks See Its Advantages

By ELLEN MEMMELAAR

NEW YORK — With banks actively promoting the Internal Revenue Service's electronic tax-filing service for the first time, the agency reported a boom in such transactions this year.

The IRS said it received 4.2 million returns electronically, via telephone lines from banks and tax preparers. The volume, equaling almost 4% of all individual tax returns, quadrupled that of 1989 and doubled the IRS' 1990 projection.

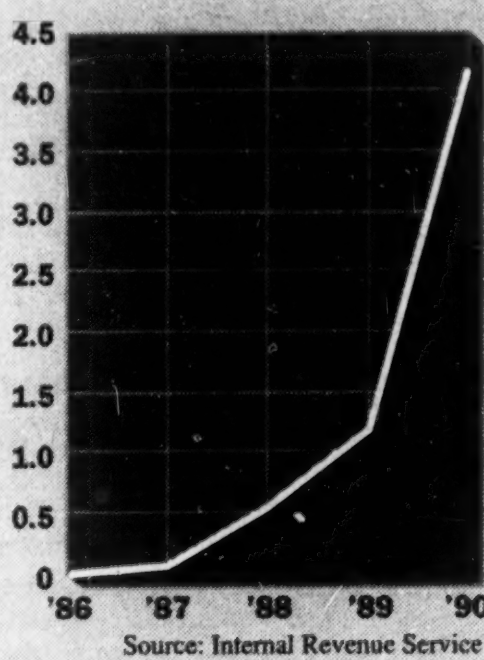
Speedier Refunds

The main selling point of electronic filing is that refunds are deposited directly into a designated bank account within two weeks instead of the usual six. Banks and other participants earned fees of \$30 to \$50 for transmitting each electronic return, and the faster turnaround meant an earlier-than-usual surge of refund deposits.

"It was an outstanding season," said Steven Guido, president of Electronic Filing Centers Inc., a company that banks and credit unions use to process electronic returns. "All of the banks

Speedier Returns

Individual tax returns filed electronically, in millions



exceeded their expectations."

Among Mr. Guido's customers, which include BankAmerica Corp. and Great Western Financial Corp., 60% of the tax refunds went into savings accounts. This money is likely to remain on deposit longer than would checking account deposits, he said.

Customers whose returns are filed electronically also get refunds greater than the average of

See **ELECTRONIC** page 8

Large Banks Seek System To Minimize Check Risks

By KAREN GULLO

NEW YORK — Facing a September deadline to speed the availability of funds on deposited checks, several major banks may form a nationwide clearing house to help them guard against losses from checks that are not backed by sufficient funds.

Working with a consultant, First Interstate Bank of California, Wells Fargo Bank, and other large regional and money-center institutions are discussing the formation of an association that would process each other's checks using a technique known as electronic check presentment. The banks would begin the funds collection process by transmitting data from the magnetic-ink line on checks, rather than waiting for the checks themselves to be delivered via air and ground transportation.

The banks want to speed the delivery of transaction data to

See **BIG** page 3

Real Estate Woes Cut Net at C&S, Bank of Boston

By TOM LEANDER and KENNETH CLINE

Big increases in problem real estate loans forced Bank of Boston Corp. and Citizens and Southern Corp. to post sharp drops in earnings and Ameritrust Corp. to report a \$51.6 million loss.

Meanwhile, Shawmut National Corp., Hartford, Conn., which was forced by regulators to restate its fourth-quarter earnings because of problem real estate loans, said its first-quarter profits fell 37%, to \$40.6 million.

Share Prices Show Gains

Investors appeared to shrug off the results, which in some cases were not as bad as expected. Bank of Boston's stock closed at \$12.125, down 12.5 cents. Atlanta-based Citizens and Southern rose 50 cents, to \$23.875; Ameritrust climbed 12.5 cents, to \$18.25; and Shawmut, 37.5 cents, to \$14.25.

Bank of Boston said its first-quarter profits fell 49% to \$44 million, from the \$89 million earned in the period a year earlier. Without nonrecurring gains, Bank of Boston would not have posted a profit,

See **MORE** page 16

The Bank Examiners' Timetable

Institutions under review or facing exams

		Exam schedule
Chase Manhattan	New York	Now
Citicorp	New York	Summer
First Union	Charlotte, N.C.	Now
First Wachovia	Winston-Salem, N.C.	Now
Fleet/Norstar	Providence, R.I.	Now
MNC Financial	Baltimore	Summer/fall
Mellon Bank	Pittsburgh	Summer/fall
National City	Cleveland	Now
PNC Financial	Pittsburgh	Summer/fall
Sovran Financial	Norfolk, Va.	Summer
SunTrust Banks	Atlanta	Now

Source: Goldman, Sachs

Analysts Keep Ears to the Ground To Learn Next Target for Exams

By BILL ATKINSON

Ever since a troop of examiners swept into New England, zeroing in on real estate portfolios, bankers and stock analysts alike have been burning up phone lines to find out when and where the regulators will turn up next.

The huge losses posted by Bank of New England Corp. and Shawmut National Corp. following regulatory reviews have injected a huge dose of uncer-

tainty into the examination process, leaving bankers in other regions wondering if the same medicine is in store for them.

And analysts, worried about the impact on stock prices, have set out to chronicle the examiners' every move.

"Anywhere they are, the stocks suffer," said Lacy Shockley, a vice president at Smith Barney, Harris Upham & Co.

So far, the Office of the Comptroller of the Currency has focused on the East Coast, including Florida, where units of Barnett Banks Inc. and Southeast Banking Corp. have been

See **ANALYSTS** page 16

COMMENT / By Stanley M. Huggins and Mark D. Guthrie

Benefit Plans Help Conserve Scarce Resource: Managers

We have almost 40,000 providers of financial services in the United States, including about 14,000 commercial banks, 2,500 thrifts, more than 15,000 credit unions, and 3,000 to 4,000 in insurance, securities, and related industries.

Quite simply, with the increased complexity of the financial services industry, we do not have enough competent and qualified senior managers to operate this number of companies. Consequently, competition for high-quality management will continue to increase.

Determining appropriate compensation and benefits strategies is a major challenge for financial institutions. What follows are several major areas of concern, and practical points to help institutions deal with them:

Cost and Complexity. Be realistic about the cost and complexity of compensation plans. Many so-called experts tend to recommend the most complex and expensive plan for every institution regardless of its size or needs. Review carefully the cost of designing and administering the plan and the ability of employees to understand its complexity.

Do not forget to check how difficult it may be to terminate the plan if it proves unsuccessful or inefficient.

Tax Considerations. A thorough review of the tax implications must be made.

The authors are principals of Huggins & Associates, a consulting group based in Memphis, Tenn.

tions must be made. The Tax Reform Act of 1986 substantially affected executive compensation and benefit planning. The new law discourages conversion of compensation into capital gains, compensation based on borrowing, and incentive stock options. It encourages cash bonuses.

Unfriendly Takeovers. Many executives are nervous in the current takeover environment. They may prefer short-term compensation rather than future compensation. As one observer recently stated, "the dollar bill is the ultimate flexible benefit," allowing executive to purchase whatever benefit they choose.

Market for Stock. Only a few hundred of the almost 17,000 banks and thrifts have an active market for their stock. In these cases, it may be necessary to create an artificial market for stock, or phantom stock in the form of stock appreciation rights, for executives.

Institutions may implement such a strategy by offering to buy back shares or paying an amount equal to the appreciation of phantom shares. The amount paid to the executive is based on a specific formula agreed to by the institution and the executive at the time of implementation. Obviously, such plans may use any formula that is appropriate, such as book value, a multiple of earnings, return on equity, return on assets, or other criteria.

Accounting Issues. Always be certain to review accounting considerations. In many in-

stances, even though there is no immediate cash or tax effect, generally accepted accounting principles may require the company to take a hit on earnings immediately upon entering into the agreement or plan. Also, check the applicable regulatory accounting principles to determine whether they are different from GAAP.

Holding Company or Bank? Make sure you understand the differences between placing the executive compensation struc-

ture within the bank and placing it within the holding company.

Holding companies are generally not subject to restrictive regulation of employment contracts, benefit plans, and other elements of a compensation package, while banks and thrifts are directly regulated by the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, or the Office of Thrift Supervision. More flexibility is available in plans at the holding company level.

There may be considerations, however, that limit the funding of plans since many holding companies have no independent source of cash flow other than dividends from the subsidiary institution.

Nonqualified Benefit Plans. In many cases, qualified pension, profit sharing, and annuity plans cannot be used effectively to

provide deferred compensation for executives and key employees because the benefits must be uniform, nondiscriminatory, and applicable to employees as a whole.

Since the Tax Reform Act of 1986, employers are discovering that new demands and constraints placed on qualified plans may outweigh the benefits.

Nonqualified plans may provide the flexibility needed to offset the impact of the 1986 Act without jeopardizing the balance between providing competitive incentives and holding down the costs of funding and administration.

'In many cases, qualified pension, profit sharing, and annuity plans cannot be used effectively because the benefits must be uniform, nondiscriminatory, and applicable to employees as a whole.'

Several types of nonqualified plans that may assist an employer in the development of workable comprehensive compensation package are:

- Excess benefit plans.
- Insurance arrangements.
- Top hat plans.
- Golden parachute payments.
- Deferred bonuses.
- Nonqualified stock options.
- Rabbi trusts.
- Phantom or shadow stock plans.
- Secular trusts.
- Other nonqualified annuity arrangements.

Cash Availability. Perhaps the most obvious but often overlooked issue is the impact of the plan on cash flow. Plan ahead regarding when the institution will be required to fund its obligations.

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FUNNY MONEY / By Tom Leander

New England Town Puts Bear in Stocks

New England bank stock analysts may be falling prey to that old adage about killing the messenger who brings the bad news.

That, at least, was Gerard S. Cassidy's impression when a fellow employee at Tucker, Anthony & R.L. Day told him of his reputation at One Bancorp, a bank in Portland, Maine, that has been hard hit by real estate woes. Mr. Cassidy is well known in New England business circles for his gloomy prognosis about the area's bank stocks.

The employee - a salesman - had just returned from a meeting with a loan officer of Maine Savings Bank, a One Bancorp subsidiary, and retold this conversation.

"Are you a junior member of the staff at Tucker?" the loan officer reportedly had asked the salesman.

The salesman replied that he was.

"Then it must be your job to go out into the parking lot and turn on the ignition of Gerard Cassidy's car," said the loan officer.

"What do you mean?" asked the salesman.

"To see if it's been rigged with

a bomb."

Mr. Cassidy, who takes such quips in stride, notes that the local press has taken to calling him the *Ursus Horribilis* - latin for Horrible Bear - of New England bank stock analysts.

Broken Point

Prosecutors sometimes reach for oratorical grandeur in a bank crime trial - and end up hitting the funny bone.

Such was the case on Monday when, in his final speech to the jury, assistant U.S. Attorney Daniel Clancy likened Rep. Harold Ford, D-Tenn., to a bank robber.

Mr. Ford is accused of taking \$1.5 million in fraudulent loans, in 18 payments between 1976 and 1983, from banks controlled by brothers Jake and C.H. Butcher Jr.

"Congressman Ford makes \$80,000 a year. Contrary to what politicians tell us, you can live on that," Mr. Clancy said in closing arguments. "But they got many, many hundreds of thousands of dollars, more than any bank robber ever got going in carrying a gun and holding up a bank. You might say they had a .38-caliber pencil."

Mr. Ford says he is not guilty of fraud and predicted a quick acquittal.

Plush Promotion

Is there no end to the California retail banking wars? First it was round-the-clock telephone access, then Saturday banking, then five-minute teller service guarantees.

Now Bank of America has raised the ante again. Any customer applying for a Visa or MasterCard at its main San Francisco office this month gets "a cuddly stuffed bunny" as a token of Bank of America's gratitude, a flier mailed by the branch announces. A bank spokeswoman said the promotional bunnies will be offered through next week.

Crosstown rival Wells Fargo Bank says it won't match the offer. "We're not into stuffed animals," a spokeswoman said.

— Sam Zuckerman

Fig Leaf Brigade

First Bank System Inc. launched a program last year to showcase its \$9 million art collection and display its paintings in corridors and in a special gallery.

But when some paintings spurred protests from bank workers because of their subject matter, the bank organized a

"feedback" forum to allow employees to vote on the merits of the work. Pieces that received a thumbs-down from more than six workers were consigned to a single hallway, which was dubbed Controversy Corridor.

But many employees were uncomfortable with the corridor and wanted to get rid of it, according to bank spokeswoman Christine Mahai. The bank canceled the feedback sessions and closed the corridor.

But it's still stirring controversy. Lynne Sowder, the bank's former art curator, and Nathan Braulick, former director of the communications/visual arts division, wrote a joint letter that appeared in the February issue of *Metropolitan Home* charging that the bank's management closed the corridor gallery because it was too provocative.

— Stanley Holt

Reader Forum

The American Banker welcomes points of view on issues of interest and importance to the banking industry.

Please direct them to Jeffrey Kutler, assistant managing editor, American Banker, One State Street Plaza, New York, N.Y. 10004. Letters may be edited for space.

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